

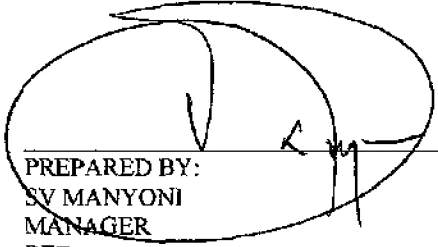
BBBEE PRACTICE

SUMMARY:


This Practice aims to ensure alignment of Armscor and all its subsidiaries' business process in order to achieve the goals set to transform Armscor and all its subsidiaries and its supplier database in line with the Broad Based Black Economic Empowerment (BBBEE) imperatives prescribed by national government.

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APPROVAL PAGE


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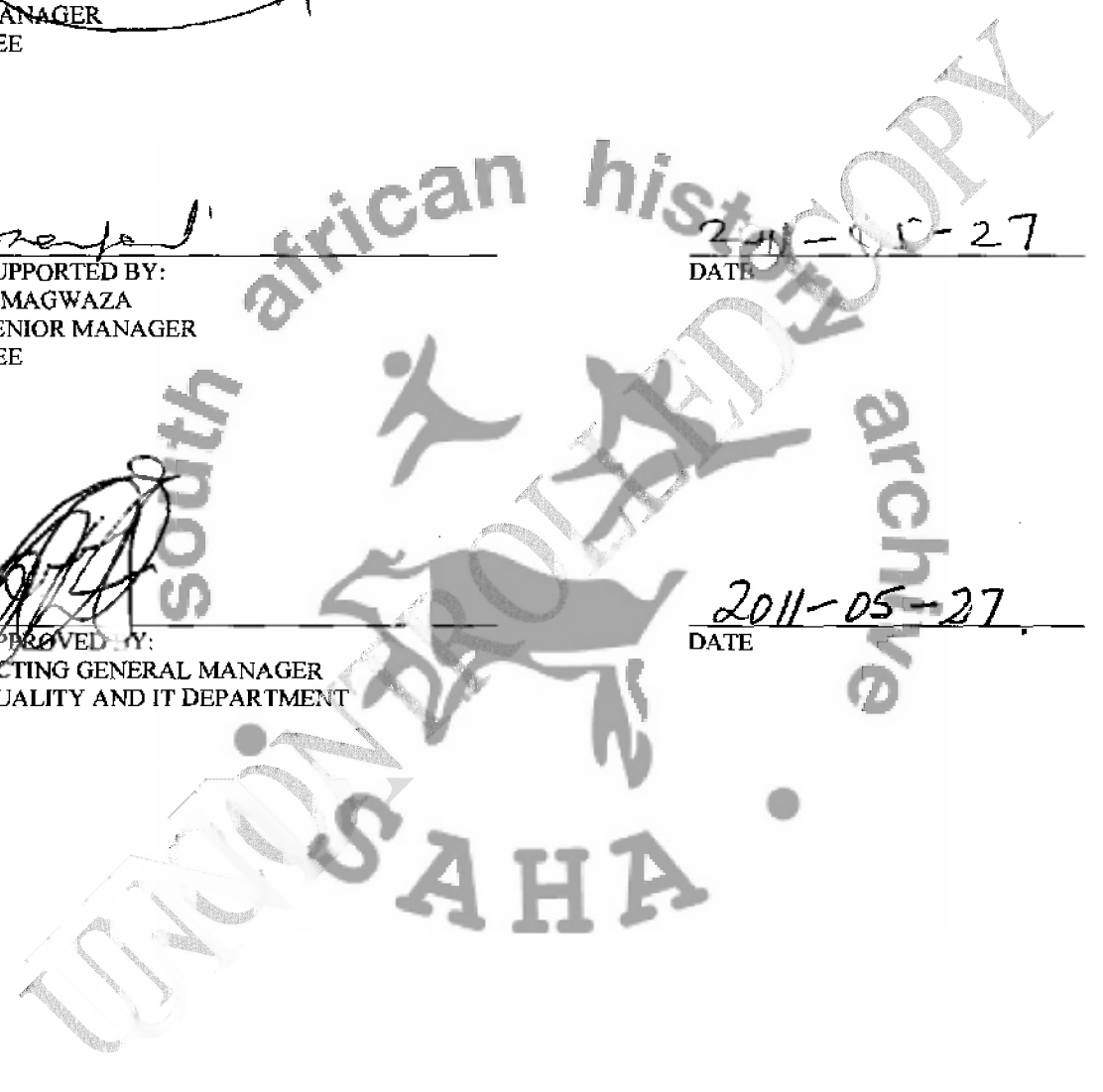
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AMENDMENT HISTORY

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1 SCOPE

This Practice aims to implement the BBBEE Policy and also ensure alignment of Armscor and all its subsidiaries' business processes in order to transform Armscor and all its subsidiaries and its supplier database to be in line with the Broad-Based Black Economic Empowerment (BBBEE) imperatives prescribed by national government.

The Practice sets out the approach Armscor and all its subsidiaries will apply to align its process in order to achieve transformation in its operating environment and business transactions.

2 DOCUMENTS

2.1 Applicable Documents

- 2.1.1 A-STRAT-0006 : Black Economic Empowerment Strategy
- 2.1.2 A-POL-4000 : Black Economic Empowerment Policy
- 2.1.3 Act No 53 of 2003 : Broad-Based Black Economic Empowerment
- 2.1.4 Act No 5 of 2000 : Preferential Procurement Policy Framework
- 2.1.5 Act No 5 of 2000 : Preferential Procurement Regulations, 2001, pertaining to Preferential Procurement Policy Framework
- 2.1.6 BBBEE Codes of Good Practice of 2007

2.2 Reference documents

- 2.2.1 A-STD-0020 : Armscor General Terms and Conditions of Contract
- 2.2.2 A-PRAC-1034 : Practice for the Selection of Contractual Sources
- 2.2.3 A-POL-6000 : Defence Industrial Participation (DIP) Policy

3 DEFINITIONS / ABBREVIATIONS

3.1 Definitions / terminology / word descriptions

3.1.1 Acceptable offer

Means an offer that meets all the critical and mandatory criteria as set out in the approved value system for that offer.

3.1.2 Agent

Means a person mandated by another person ("the principal") to do business for him and on his behalf or to represent him in a business transaction, thereby acquiring rights from Armscor for the principal and incurring obligations that bind the principal in favour of Armscor.

3.1.3 Armscor supplier

Means a company or individual that is registered or has applied for registration to provide a product or render a service required by Armscor and all its subsidiaries.

3.1.4 BEE supplier

Means a company or individual that is registered on Armscor's supplier registration system to provide a product or render a service required by Armscor and is BEE compliant in terms of the combination of all the elements of the BBEE balanced scorecard and has a minimum of 25% black equity ownership.

3.1.5 Black people

Means a generic term which refers to Africans, Coloureds and Indians who are South African citizens.

3.1.6 Broad-Based Black Economic Empowerment (BBEE)

Means the economic empowerment of all black people through diverse but integrated socio-economic strategies that include but are not limited to increasing the number of black people that manage, own and control enterprises and production assets, and facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises; skills development; achieving equitable representation in all occupational categories and levels in the workforce; preferential procurement; and investment in enterprises that are owned or managed by black people; socio-economic development being investment in black communities and black individuals.

3.1.7 Black enterprise

Means an enterprise that is at least 50,1% owned by black people and where there is substantial management control by black people. Ownership refers to economic interest, while management refers to membership of any board or similar governing body of the enterprise.

3.1.8 Black-empowered enterprise

Means an enterprise that is at least 25,1% owned by black people and where there is a minimum of 25,1% management control by black people. Ownership refers to economic interest, while management refers to executive directors/members.

3.1.9 Black Management Control

Means the Board representation and Executive involvement of black people.

3.1.10 Black woman-owned enterprise

Means an enterprise that is at least 25,1% owned by a black woman or black women.

3.1.11 Company

Means any individual or collective company / companies, supplier, service provider, partnership, association, organisation, joint venture or other business entity organised or doing business in South Africa. It further includes Armscor in its capacity as an accredited quality assurance organisation, acquisition authority and service, research or equivalent product provider where and when applicable.

3.1.12 Comparative price

Means the price after taking the factors of not fixed prices and all allowable unconditional discounts into consideration.

3.1.13 Consortium/ Joint venture

Means an association of people for the purpose of combining their expertise, property, capital, efforts, skills and knowledge in an activity for the execution of a contract.

3.1.14 Contract

Means the agreement that results from the acceptance of an offer or quotation by Armscor.

3.1.15 DIP

Means Defence Industrial Participation, a government-initiated process whereby defence purchases are used as a leverage to oblige a foreign seller of defence commodities or services to perform defence-related business in South Africa on a reciprocal basis in order to advance military strategic and defence-related industrial participation imperatives.

3.1.16 Director

Means a member of a board of a company.

3.1.17 Disability

Means, in respect of a person, a permanent impairment of physical, intellectual or sensory function, which results in restricted or lack of ability to perform an activity in the manner or within the range that is considered normal.

3.1.18 Equity equivalence

Means initiatives that promote enterprise creation, technology transfer, employment creation and social advancement, which must be approved by the Minister of Trade and Industry.

3.1.19 Exempted micro enterprise

Means an enterprise with an annual turnover of less than R5 million.

3.1.20 Foreign company

Means a company that is incorporated outside the RSA.

3.1.21 Foreign owned company

Means a local company that is 51% or more owned by non-South Africans.

3.1.22 Imported content

Means that portion of the price offered that represents the cost of components, parts or materials which have been or are still to be imported (whether by the offeror or his suppliers or

subcontractors), including freight and other direct importation charges such as landing costs, dock dues, import duty, sales duty or other similar tax or duty at the South African place of entry, as well as transportation and handling charges to the factory in South Africa where the supplies are manufactured.

3.1.23 Large enterprises

Means an enterprise with an annual turnover of more than R35 million.

3.1.24 Local company

Means a company that is incorporated in the RSA.

3.1.25 Local owned company

Means a local company with more than 51% equity ownership by South Africans.

3.1.26 Local content

Means that portion of offered price represented by the cost of components, materials, parts, skills and manpower that have been manufactured or made or produced or originate in South Africa rather than imported.

3.1.27 Multinational

Means a measured entity with a business in the RSA and elsewhere, maintaining its international headquarters outside the Republic.

3.1.28 Offer

Means an offer in a prescribed or stipulated form in response to an invitation by Armscor for the provision of service, work or goods.

3.1.29 Ownership

Means that the individual concerned has an economic interest in the entity and is entitled to all economic benefits, e.g. dividends.

3.1.30 Qualifying small enterprise

Means an enterprise with an annual turnover of between R5 million up to R35 million.

3.1.31 Rand value

Means the total estimated value of the contract in rand, which is calculated at the time of the bid invitations and includes all applicable taxes and excise duties.

3.1.32 Specialised enterprise

Means an enterprise that cannot be measured on ownership, namely:

Companies limited by guarantee

Higher education institutions

Non-profit organisations

Public entities and other enterprises wholly owned by organs of state

Public Benefit Scheme

Section 21 companies.

3.1.33 Subcontracting

Means the main contractor's assigning or leasing or outsourcing work under the contract to another person, or assigning another person to support the primary contractor in the execution of part of the project in terms of the contract and the main contractor is responsible for the due fulfilment of the obligations of the subcontractor.

3.1.34 Substantial/significant management control

Means board representation of black people from 50% and above and executive involvement of black people from 40% and above.

3.1.35 Trust

Means an arrangement through which the property or assets of one person are bequeathed or made over to a trustee to administer such property for the benefit of another person.

3.1.36 Trustee

Means a person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person.

3.1.37 Vendor/Supplier

Means a company or individual that is registered on Armscor's supplier registration system to provide a product or render a service required by Armscor or its clients.

3.2 Abbreviations / acronyms

| | | |
|-------|---|---|
| ADI | : | Armscor Defence Institutes |
| QSI | : | Quality Systems Improvement and Standardisation |
| ASRS | : | Armscor Supplier Registration System |
| BEE | : | Black Economic Empowerment |
| BBBEE | : | Broad-Based Black Economic Empowerment |
| DIP | : | Defence Industrial Participation |
| DoD | : | Department of Defence |
| GM | : | General Manager |
| PM | : | Programme/Project Manager |
| RFO | : | Request for Offer |
| SOE | : | State Owned Enterprise |
| DTI | : | Department of Trade and Industry |

4 RESPONSIBILITIES

4.1 Process owner

The General Manager Quality & IT is the process owner of this Practice.

4.2 Communication

The management of QSIS is responsible for all communication aspects in connection with this Practice.

4.3 Implementation

The Management Board, through the Senior Manager BEE and other appointees, is responsible for the implementation of this Practice.

4.4 Review

The Senior Manager BEE will convene a review group every three years or whenever necessary, consisting of representatives from Acquisition Department, Quality and Information Technology Department, Finance and Infrastructure Department, Armscor Defence Institutes, Human Resources Department, and Legal Services Division

4.5 Data management

The Senior Manager: BEE Division is responsible for the management and control of all data derived from this Practice.

5 PRACTICE

5.1 Manage supplier registration process

5.1.1 Supplier database

5.1.1.1 BEE Division will maintain a supplier database that will be utilized by Security Division to proactively audit the security status of suppliers, and by other divisions in Armscor to source potential suppliers of goods and services.

5.1.1.2 The Senior Manager BEE will continuously expand the number of current and potential suppliers and vendors on the Armscor Supplier Registration System by:

5.1.1.3 Gathering industry information and targeting and inviting suppliers/vendors to register as Armscor suppliers/vendors.

5.1.1.4 Accessing the supplier databases of State Departments, State Owned Enterprises and other Public Entities and inviting identified potential suppliers to also register as Armscor suppliers.

5.1.1.5 All local and foreign companies are eligible for registration as suppliers to Armscor.

5.1.1.6 Only suppliers registered or who have applied for registration on the database will be eligible to do business with Armscor.

5.1.1.7 All potential local and foreign suppliers of defence-related goods and services should apply for registration where the acquisition of such goods and services is administered by Armscor. Such goods and services may include full-scale design and development, manufacture, installation,

integration, logistical support or maintenance work on equipment already in service, or intended for service in the Department of Defence.

5.1.1.8 The entity in whose name an order is placed must be registered. A subsidiary or business unit of a major company must liaise with its head office before applying for registration. The conglomerate / head office will normally not be registered but a subsidiary or business unit will be registered as - "Conglomerate / Head office trading as.....".

5.1.1.9 The database will contain information about each supplier according to the following categories:

- Company registration information
- Address information
- Contact details
- Shareholders/ Directors/ Members of the company
- Ownership/shareholding information
- Areas of expertise (primary and secondary)
- Turnover information
- Enterprise classification information (local/foreign/wholly owned SE, partially owned SE, foreign owned local company, QSE, EME, etc)
- BBBEE Scorecard information
- Client information

5.1.2 Registration and deregistration of suppliers

5.1.2.1 The supplier registration process caters for the registration of potential suppliers that provide products and services (technologies) for the Department of Defence and other State Departments Acquisition projects, e.g. maintenance of armoured vehicles, submarines, aircraft, helicopters, and cut, make and trim of soldiers' uniforms.

Applications for registration must be submitted via the Internet by e-mail from our website (www.armscor.co.za) or in writing and be addressed to the Senior Manager: BEE, Armscor Supplier Registration, Private Bag X337, Pretoria 0001, or faxed to 012 428 2082. Applications should be brief and be on a letterhead of the entity containing the name, address and core

5.1.2.2 competency of the organisation. Internet e-mail and website addresses are also required if available.

5.1.2.3 Copies of the suppliers' latest annual financial statements, valid tax clearance certificate, valid BBBEE verification certificate, shareholder agreements, share certificates and/or consortium agreements must be submitted with the application.

5.1.2.4 On receipt of an application, the applicant will be provided with an electronic letter with a username and password to complete the questionnaire online, which must be submitted back to Armscor.

5.1.2.5 The electronic database will be supported by hard copy files for all registered suppliers.

5.1.2.6 Applicants will be notified in writing of their inclusion in Armscor's electronic supplier registration database and of their evaluated technologies.

- 5.1.2.7 Unsuccessful applicants will be notified in writing of their failure to be registered.
- 5.1.2.8 Update of the system will be done every six months for inactive suppliers, and suppliers who remain inactive for a period of three years will be archived and deregistered from the system.
- 5.1.2.9 Registered suppliers will be expected to notify Armscor of any changes to ownership, address, name, verification certificates, and/or areas of technological capabilities.
- 5.1.2.10 Armscor reserves the right to deregister the supplier from the database for unethical business conduct or fronting.

5.1.3 Sourcing of suppliers

- 5.1.3.1 Programme/Project managers and procuring officers should consult BEE Division/Supplier Registration for the identification of sources of supply for any RFO issued for acquisition and procurement, specifically to identify possible BEE suppliers.
- 5.1.3.2 When generating an RFO, programme/project managers must, apart from describing the technology required, state the requirement in precise and unambiguous terms and avoid the use of acronyms, proprietary names or terms which would be unknown to the general defence supplier community. The bulletin description should be concise and clear and describe the requirement in terms that would be familiar to the general defence supplier community.
- 5.1.3.3 BEE Division will approach non-transformed suppliers with the intent of recommending that they transform within a period of 12 months if they wish to be used as frequent suppliers. Such suppliers shall be listed as targeted for transformation.

5.2 Manage BBEE during the tender process

The Armscor BBEE monitoring system will be customised to track the transformation status of all suppliers that Armscor contracts.

5.2.1 Source selection

- 5.2.1.1 All contracts concluded by Armscor or its subsidiaries excluding Acquisition for any given service or goods shall be for periods not exceeding 36 months; any exception must be approved by the Management Board.
- 5.2.1.2 Local acquisition and procurement must be encouraged in support of the Government programmes of job creation, poverty alleviation and reduction in foreign payments, by favouring local suppliers in the awarding of tenders, especially BBEE compliant suppliers.
- 5.2.1.3 The following points allocation system will be used where functionality, price, BBEE and local content are considered:

| Element | Weight | |
|---------------|------------|------------|
| | Current | New |
| Functionality | 40 | 35 |
| Price | 40 | 35 |
| BEE | 20 | 20 |
| Local Content | N/A | 10 |
| TOTAL | 100 | 100 |

5.2.1.4 The following points allocation system will be utilized where price, BBBEE and local content are considered:

| Element | Current weight | New weight |
|---------------|----------------|------------|
| Price | 80 | 70 |
| BEE | 20 | 20 |
| Local Content | N/A | 10 |
| TOTAL | 100 | 100 |

5.2.1.5 The BBBEE points will be allocated according to the BBBEE Scorecards (Annexure 1)

5.2.1.6 The Local Content points will be allocated according to the following table:

| Local Content Percentage | Points Allocated |
|--------------------------|------------------|
| 90 + | 10 |
| 80 – 89 | 8 |
| 70 – 79 | 7 |
| 60 – 69 | 6 |
| 50 – 59 | 5 |
| 40 – 49 | 4 |
| 30 – 39 | 3 |
| 20 – 29 | 2 |
| 0 – 19% | 0 |

5.2.1.7 The Senior Manager BEE or his or her delegate shall be invited to attend source selection committee meetings where a value system is applied for the assessment of tenders and participate with respect to all BEE related aspects.

- 5.2.1.8 All local and foreign owned local companies must submit valid certified verification certificates or a certified valid verification certificate or auditors' /accounting officers' letters in terms of the BBBEE Codes of Good Practice with their tenders. Any supplier who fails to submit a valid verification certificate or a certified valid verification certificate or auditors'/accounting officers' letter will be disqualified.
- 5.2.1.9 All local and foreign owned local companies must submit valid verification certificates or auditors'/accounting officers' letters in terms of the BBBEE Codes of Good Practice when their contracts are being renewed or amended where there are positive contract values involved.
- 5.2.1.10 Suppliers may also be required to submit company registration documents, shareholders agreements and share certificates if such documents are not already in our supplier database or are out of date.
- 5.2.1.11 No contract will be awarded to local and foreign owned local offerors who have failed to submit an original tax clearance certificate from the South African Revenue Service, or confirmation from SARS that suitable arrangements have been made with them.
- 5.2.1.12 No labour broker contracts will be awarded to local offerors who failed to submit an original tax exemption certificate (IRP 30) from the South African Revenue Service, which will exempt Armscor from the tax liability of the labour broker, certifying that the labour broker's taxes are in order or suitable arrangements have been made with South African Revenue Service.
- 5.2.1.13 Exempted micro enterprises must submit a Qualifying Small Enterprise Certificate when tendering for any contract with a value higher than R5 million but less than R35 million. For contracts above R35 million they should submit the Large Enterprises Certificate.
- 5.2.1.14 All offerors must complete a declaration that:
- The information provided is true and correct, and
 - The signatory is duly authorized to sign the offer document.
- 5.2.1.15 No contract for goods and services shall be awarded to a company below a given level of compliance. Micro enterprises with a turnover less than R5 million per annum are exempted from this requirement. The table below indicates the cut-off levels for the period 2011 to 2015:

| BBEE Compliance | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Level of Companies | Level 8 & below | Level 7 & below | Level 6 & below | Level 5 & below | Level 5 & below |

- 5.2.1.16 This provision may be waived by the relevant Armscor Authorization Committee in cases where a clear and acceptable motivation is provided on condition that the supplier concerned subcontracts to a BBBEE compliant company or subscribe to foreign equity equivalence programme if it is a foreign supplier or submits a transformation plan undertaking to achieve the required level within a period of one year and that such a plan is approved by the Management Board of Armscor. Motivations for exceptions will be considered where one or more of the following conditions apply:
- For exempted state owned enterprises
 - For foreign suppliers providing goods or services where no alternative source is available.

- Non compliant local single source suppliers where no alternative source is available.
- Non compliant OEM's where no alternative supplier is available or use of such alternative suppliers would infringe on warrantee conditions or render responsibility as the design authority invalid.
- Cases where DOD or SANDF strategic or operational imperatives or urgency make it impossible to source the goods or services from a compliant supplier

5.2.1.17 No contract for goods and services shall be awarded to any tenderer /supplier unless such tenderer /supplier either has Black Equity Ownership of at least **25%** or alternatively has entered into acceptable Joint Venture with another approved party which creates an effective Black Equity interest in the project of at least **25%**. Micro enterprises with a turnover of less than R5 million per annum are exempted from this requirement provided they tender for a contract value which is not more than R5 million per annum. Suppliers must maintain the 25% black equity ownership throughout the contractual period failure to that a minimum of 10% penalty shall apply. Armscor reserves the right to terminate the order in the event that the required 25% black equity fall below the minimum threshold and the contractor does not provide Armscor with an acceptable plan on how he intends to remedy this situation.

5.2.1.18 This provision may be waived by the relevant Armscor Authorization Committee in cases where a clear and acceptable motivation is provided on condition that the supplier concerned subcontracts to a BEE compliant company or subscribe to an equity equivalence programme if it is a foreign supplier or submits a transformation plan within 90 days of the order date undertaking to achieve the required 25% Black Equity ownership within a period of one year and that such a plan is approved by the Management Board of Armscor. Motivations for exceptions will be considered where one or more of the following conditions apply:

- For exempted state owned enterprises
- For foreign suppliers providing goods or services where no alternative source is available.
- Non compliant local single source suppliers where no alternative source is available.
- Non compliant OEM's where no alternative supplier is available or use of such alternative suppliers would infringe on warrantee conditions or render responsibility as the design authority invalid.
- Cases where DOD or SANDF strategic or operational imperatives or urgency make it impossible to source the goods or services from a compliant supplier

5.2.1.19 Where this provision has been waived by the relevant Armscor Authorization Committee the following will apply:

- Armscor will withhold 10% of the value of invoices submitted for payment from the supplier who fails to submit a transformation plan that is acceptable to Armscor within the prescribed time frame. These fees will be refunded to the supplier once the non-conformance has been rectified.
- If a supplier fails to implement the transformation plan within the specified period, then Armscor will impose a penalty of 10% of the value of the order. Subsequent non-conformances will result in additional 5% penalties being levied.
- Any supplier who refuses to transform or whose penalties for non-conformance reach 15% may be disqualified from receiving new orders from Armscor for a period of five years.

5.2.1.20 A supplier awarded a contract may not subcontract more than 25% of the value of the contract to a local supplier that does not have a minimum of 25% black equity ownership or an equity

equivalent programme for foreign suppliers. Should subcontracting be done by a foreign supplier it should be approved at Management Board level.

- Invoices for the final 10% of the contract shall be accompanied by a declaration from the contractor that the offered % subcontracting to BEE suppliers has been met.
- Armscor reserves the right to perform an audit of BEE mandatory subcontracting information furnished by the main contractor.
- Armscor reserves the right to conduct an audit of BEE subcontractors included by main contractors, with the intention of verifying that the information is correct.

5.2.2 Awarding of preference points

- 5.2.2.1 The Project Manager must calculate the preference points to be awarded to tenderers in the application of the source selection process. Such calculations must be based on the BBBEE Verification Certificate supplied by the supplier and verified by the Senior Manager BEE or his/her delegate.
- 5.2.2.2 The final score is calculated by adding functionality, price and local content where applicable, and BBBEE score. The project manager/program manager will perform the calculation and the BEE division will be responsible for verifying the BBBEE score. The tender will be awarded based on highest points scored.
- 5.2.2.3 Points scored are rounded off to the nearest two decimal place.
- 5.2.2.4 In the event of offerors scoring equal total points, the contract is awarded to the offeror scoring the highest points in terms of the BBBEE score. Should the points again be equal, then the successful offeror will be the one scoring the highest points for equity ownership (preferably % owned by black women) in the balanced scorecard.
- 5.2.2.5 Should there be equal points for equity ownership, then the successful offeror is the one scoring the highest points for price. Should there still be equal points, award must be decided by the drawing of lots.
- 5.2.2.6 Failure on the part of an offeror to fill in and/or to sign the declaration form in the tender document will be construed as meaning that preference points are not claimed.
- 5.2.2.7 In the event that the percentage equity ownership by a black person changes after the closing date of the bid, the bidder must notify Armscor of the changes. If the percentage ownership by a black person increases, the bidder will not be eligible for any additional preference points. Should the percentage equity ownership by a black person decrease, the preference points for equity ownership would be reduced accordingly.
- 5.2.2.8 Equity claims for a Trust may only be allowed in respect of those persons who are both trustees and beneficiaries and who are actively involved in the management of the Trust.
- 5.2.2.9 Armscor reserves the right to require an offeror, either before an offer is adjudicated or at any time subsequently, to substantiate any claim with regard to preference and in any manner required by Armscor.
- 5.2.2.10 Preference points shall be awarded to tenders from entities or joint ventures/consortiums and must be calculated in accordance with combination of points scored per each BBBEE Verification Certificate.
- 5.2.2.11 Offerors shall be required to provide a list of the BEE subcontractors' information as indicated in the tender document for the portion of the contract or order.

5.3 Manage BBEE monitoring process

5.3.1 Monitoring of BBEE verification certificates

- 5.3.1.1 Government has, through the implementation of the BBEE Codes of Good Practice, introduced the BEE Verification Agencies to verify BBEE status of suppliers. The BEE Verification Agencies' role is to verify BBEE credentials and issue a verification certificate. BEE Division shall provide an oversight role to ensure that the information provided is credible, and capture it into the BBEE monitoring system.
- 5.3.1.2 The BBEE Verification Certificate is required as proof for the BBEE status of the entity. If there are suspicions of fronting, substantiating documents to prove equity will be required, such as registration documents, share certificates, sale agreements, shareholders agreements, etc.
- 5.3.1.3 Companies with active orders must be monitored on a quarterly basis to ensure that they have valid verification certificates and that they hold on to or improve their level of compliance. A supplier must be reminded to submit new certificate at least three months before the expiry of the current one. Companies whose certificates have expired must be notified and requested to remedy the situation within a period of 60 days, failing which payments could be withheld until the breach is rectified.
- 5.3.1.4 Armscor will systematically audit suppliers with active orders to ensure that the certificates represent the true situation.
- 5.3.1.5 Any company that misrepresents information will be blacklisted and the verification agency responsible for issuing the certificate will be reported to SANAS and the Department of Trade and Industry.

5.3.2 Monitoring of BBEE Transformation plans

- 5.3.2.1 BEE Division must conduct a risk analysis of companies that are unwilling to transform and submit the risk analysis report to the Management Board every six months. The procuring divisions in conjunction with the Senior Manager BEE must actively search for alternative suppliers for those products and services that are rendered by such companies.
- 5.3.2.2 Transformation plans will be monitored on a quarterly basis and a report will be submitted to the Management Board of Armscor on the progress achieved by each supplier.
- 5.3.2.3 The Senior Manager BEE must submit a report to the Management Board within 3 months of the expiry of the transformation plan of a supplier indicating the achievements of such a supplier and further actions to be taken in the case of non-compliance.

5.3.3 Auditing of suppliers

- 5.3.3.1 Any supplier may be audited by the BEE division under the following circumstances
- On registration of the supplier in order to verify the authenticity, accuracy and completeness of the information submitted.
 - During the evaluation of offers where the BBEE information submitted is suspect
 - On expiry of allowed time for completion of transformation plans

- On request by Top Management of Armscor

5.3.3.2 Auditing will be conducted according to generally accepted auditing principles and in line with SANAS prescriptions/requirements.

5.3.4 Disqualification and blacklisting of supplier

5.3.4.1 The Senior Manager BEE can recommend to the Management Board to reject the BEE status of a supplier and impose penalties as per Section 5.3.5 if it is deemed to be a front, and constitute the following fronting indicators, for instance where:

- black people which an enterprise claims are its shareholders, executives or management are unaware or uncertain of their role or participation within an enterprise;
- black people who serve in executive or management positions in an enterprise are paid significantly lower than the market norm, unless all executives or management of an enterprise are paid at a similar level;
- there is no significant indication of active participation by black people identified as top management at strategic decision-making level;
- an enterprise only conducts peripheral functions and does not perform the core functions reasonably expected of similar enterprises;
- an enterprise relies on a third-party to conduct most core functions normally conducted by enterprises similar to an enterprise;
- an enterprise cannot operate independently without a third-party, because of contractual obligations or the lack of technical or operational competence;
- the enterprise displays evidence of circumvention or attempted circumvention;
- an enterprise buys goods or services at a significantly different rate than market from a related person or shareholder;
- an enterprise obtains loans, not linked to the good faith share purchases or enterprise development initiatives, from a related person at an excessive rate;
- an enterprise shares all premises and infrastructure with a related person, or with a shareholder with no BEE status, or with a third-party operating in the same industry, where the cost of such premises and infrastructure is disproportionate to market-related costs; and
- the enterprise, while registered as Armscor supplier, is taken over by a parent company with no BEE status.

5.3.5 Penalties

5.3.5.1 Any supplier or potential supplier that misrepresents facts in order to gain some advantage under Armscor's Black Economic Empowerment Practice will be penalised. Should any information furnished be found to be false or fraudulent, Armscor may act against a contractor/agent. In addition to any other remedy, Armscor may take some or all of the following actions:

- recover all costs, losses or damages incurred or suffered by Armscor as a result of the person's conduct;
- cancel the contract and claim any damages which Armscor may suffer by having to make less favorable arrangements after such cancellation; and /or
- restrict the contractor, its shareholders and directors from obtaining business from Armscor for a period not exceeding ten (10) years;
- blacklist the contractors, directors or owners of businesses that have been deregistered from the supplier database for a period not exceeding ten (10) years, and the Senior Manager

BEE may recommend to the Management Board to refuse to register as an Armscor supplier any company, new or existing, in which they have interests.

5.3.5.2 BBBEE penalties imposed may be waived or rescinded by the Management Board of Armscor.

5.4 Manage BBBEE programmes

5.4.1 BBBEE Support Programmes

5.4.1.1 The Senior Manager BEE should facilitate information sessions on BBBEE Policies, Strategies and Practices to increase the capacity of BBBEE suppliers doing business with Armscor. These should be held with potential BBBEE suppliers to ensure that they have all the required information from the various departments and divisions, including Acquisition, Armscor Subsidiaries, Quality and Information Technology, Legal Services, Security, Finance and Infrastructure, BEE and any other relevant department/division. This information should be disseminated nationally.

5.4.1.2 BEE Division shall provide an advisory service to assist BBBEE suppliers.

5.4.1.3 Facilitation of early payment cycles to promote enterprise development within 15 days: Depending on the BBBEE supplier's level of upliftment, and at the request of a BBBEE supplier, Armscor may decide to expedite payment, i.e. payment after receipt of a valid original invoice and proof of delivery, in order to alleviate any cash-flow difficulty. BEE Division and Acquisition will make an application to Finance Department. (The priority should be the suppliers which are 51% - 100% owned by black people.)

5.4.1.4 Joint ventures facilitation: Traditional companies not transformed should be encouraged to form joint ventures with capable BBBEE suppliers.

5.4.1.5 Collaborate with the DOD, the defence industry and the other government departments in building the capacity of BBBEE compliant small enterprises.

5.4.1.6 Identify critical skills that are needed by the industry and BBBEE suppliers.

5.4.1.7 Identify suppliers that are willing and can provide training and mentorship opportunities.

5.4.1.8 Facilitate the placement of unemployed graduates to these suppliers.

5.4.1.9 Facilitate annual future acquisition/procurement plans and budget estimate conferences where the different Arms of Service will present to the local defence industry and BEE companies.

5.4.1.10 Identify the suppliers in the various regions who have the capacity or potential to provide the products and services.

5.4.1.11 Regionalize the procurement of goods and services where it is practical to do so.

5.4.1.12 Provide consultation, training and support to BEE companies with regard to BBBEE process implementation.

5.5 Manage BBEE reporting

5.5.1 Reporting

The BBEE monitoring system generates reports for the procuring departments. BEE Division shall report on the BBEE spending against targets. The BBEE Report focuses on EMES, QSEs, large enterprises, multinationals and foreign suppliers.

5.5.2 BEE spending targets

5.5.2.1 The targets will be in line with the BBEE Codes of Good Practice. Such targets should be contracted on the balanced scorecard of both the Programme/Project Managers including Senior and General Managers involved in the acquisition and procurement of products and services.

5.5.2.2 The BEE targets are as follows:

| | Current | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|---------|---------|
| %BEE Spending | | | | | |
| Armcor Operating Budget (recognition levels) | 65% | 70% | 70% | 70% | 70% |
| Spend on QSEs and EMES | 10% | 10% | 10% | 15% | 15% |
| Spend on 50% black owned/ 30% black women owned | 15% | 15% | 15% | 20% | 20% |
| Acquisition | 35% | 40% | 40% | 50% | 55% |
| Armcor Defence Institutes | 50% | 55% | 60% | 65% | 65% |
| Armcor Dockyard | 50% | 55% | 60% | 65% | 65% |

5.6 Application of BBEE principles on DIP

5.6.1 25% of DIP obligations must be discharged with BEE supplier(s).

5.6.2 In order to assist foreign suppliers with DIP obligations to identify possible BBEE suppliers to participate in DIP projects, BEE Division will, on request, provide information to foreign suppliers on potentially suitable, registered BBEE suppliers.

5.6.3 DIP and BEE Divisions as well as foreign suppliers should work closely to ensure that the BBEE objectives are met.

5.6.4 DIP Division will encourage such suppliers to register and submit the relevant information to BEE Division for follow up.

ANNEXURE 1**PREFERENCE POINT SYSTEM AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT, EVALUATION OF BIDS, AWARDING OF CONTRACTS TO BIDS NOT SCORING THE HIGHEST POINTS, AND CANCELLATION OF AND RE-INVITING OF BIDS**

The 80/20 preference point system applies to the acquisition of goods and services at Armscor.

- The following formula must be used to calculate the points in respect of the competitive bid with Rand value equal to or above R30 000,00. (Armscor may, however, also apply this formula to price quotations with a value of less than R30 000,00, if and when appropriate.)

$$P_s = P_p + P_f + P_l$$

$$\text{Provided that } \sum (P_{pa}, P_{fa}, P_{la}) = 80$$

Where:

P_s = points scored for bid/offer under consideration

P_p = points scored for price

P_f = points scored for functionality

P_l = points scored for local content

a = allocated

And further:

If only price is used for adjudication, P_{pa} is 70 points and plus 10 points for local content (P_{la}). P_{fa} and P_{la} are deleted from the equation.

If price and functionality are used for adjudication, P_{pa} and P_{fa} are 35 points each plus constant 10 points for the local content (P_{la})

$$\text{The points scored for price } (P_p) = \left[P_{pa} \left(1 - \frac{(P_t - P_m)}{P_m} \right) \right]$$

Where:

P_{pa} = points allocated for price

P_t = comparative price of bid/offer under consideration

P_m = comparative price of lowest acceptable bid/offer

ANNEXURE 1 (continued)

2. The balanced scorecard measuring Broad-Based Black Economic Empowerment must form part of the evaluation criteria of all bids at Armscor.
- (a) A maximum of **20** points may be awarded to a bidder for achieving Armscor's BBEE objectives. The total percentage scored for Broad- Based Black Economic Empowerment will be converted to a point out of a maximum of **20** points. This will be calculated by multiplying the total percentage scored by **20**.
- (b) The points scored by a bidder in respect of the objectives contemplated in 2a above must be added to the points scored on 1 above.
- (c) The bid with the highest number of points scored is the preferred bid.
3. **The 80/20 preference point system applies to the sale and letting of assets.**

- (a) The following formula must be used to calculate the points for price in respect of the competitive bid/price quotation with a Rand value equal to or above R30 000,00. (Armscor may, however, apply this formula to the sale and letting of assets with a Rand value less than R30 000, if and when appropriate.)

$$P_p = 80 \frac{\{1 + P_t - P_h\}}{P_h}$$

Where

P_p = points scored for the bid /offer under consideration

P_t = price of bid /offer under consideration

P_h = price of highest acceptable bid /offer

- (b) The balanced scorecard measuring Broad-Based Black Economic Empowerment must form part of the evaluation criteria of all bids.
- (c) A maximum of **20** points may be awarded to a bidder for achieving the Armscor's BBEE objectives. The total percentage scored for Broad- Based Black Economic Empowerment will be converted to a point out of a maximum of 20 points. This will be calculated by multiplying the total percentage scored by 20. No points will be awarded for achieving Armscor's Broad-Based Black Economic Empowerment objectives if the total percentage scored for Broad-Based Black Economic Empowerment is less than the prescribed minimum.
- (d) The points scored by a bidder in respect of the objectives contemplated in 3c above must be added to the points scored for price.
- (e) Only the bid with the highest number of points scored may be selected.

4. On 09 February 2007 the DTI promulgated the BBBEE Codes of Good Practice and according to BBBEE Codes of Good Practice , every Organ of State and Public entity must take into account and as reasonable as possible, apply any relevant Codes of Good Practice issued in term of the Act:

4.1

SUBMISSION NO.:

ANNEXURE:

OFFER NO.:

OFFEROR:

BBBEE BALANCED SCORECARDS FOR ENTITIES WITH AN ANNUAL TURNOVER BELOW R5M: EXEMPTED MICRO ENTERPRISES (EMEs)

| LEVEL: | MAXIMUM POINTS | POINTS SCORED |
|--|-----------------------|----------------------|
| VERIFICATION CERTIFICATE RECEIVED | | |
| LEVEL 3 WITH 100% BLACK EQUITY | 20 | X |
| LEVEL 3 FROM 75% - 99% BLACK EQUITY | 15 | X |
| LEVEL 3 FROM 50% - 74% BLACK EQUITY | 12.5 | X |
| LEVEL 4 FROM 25% - 49% BLACK EQUITY | 7.5 | X |
| LEVEL 4 BELOW 25% BLACK EQUITY | 5 | X |
| ONLY EME LETTER/STATEMENT RECEIVED | 5 | X |
| NO LETTER OR CERTIFICATE SUBMITTED | 0 | X |

COMPANY INFORMATION:

| | |
|---|---|
| TOTAL NUMBER OF EMPLOYEES | 0 |
| TOTAL NUMBER OF BLACK EMPLOYEES | 0 |
| TOTAL NO OF BLACK APPOINTMENTS TO THE BOARD | 0 |
| TOTAL NO OF BLACK APPOINTMENTS IN MANAGEMENT | 0 |
| TOTAL NO OF BLACK PROFESSIONAL/SKILLED EMPLOYEES | 0 |
| % BLACK EQUITY OWNERSHIP | % |

BEE DIVISION:

COMMENTS:

NAME:

SIGNATURE:

DATE:

4.2

SUBMISSION NO.:

ANNEXURE ??

OFFER NO.:

OFFEROR:

BBBEE SCORECARDS FOR ENTITIES WITH AN ANNUAL TURNOVER ABOVE R5M: QUALIFYING ENTERPRISES (QSEs) AND LARGE ENTERPRISES (LEs)

| LEVEL: VERIFICATION CERTIFICATE RECEIVED | BEE SCORE | ENTITY'S SCORE | POINTS SCORED |
|---|--------------|-------------------|------------------|
| LEVEL 1 CONTRIBUTOR | =/>100 | 100.00% | 20.00 |
| LEVEL 2 CONTRIBUTOR | 85-99 | 99.00% | 19.80 |
| LEVEL 3 CONTRIBUTOR | 75-84 | 84.00% | 16.80 |
| LEVEL 4 CONTRIBUTOR | 65-74 | 74.00% | 14.80 |
| LEVEL 5 CONTRIBUTOR | 55-64 | 64.00% | 12.80 |
| LEVEL 6 CONTRIBUTOR | 45-54 | 54.00% | 10.80 |
| LEVEL 7 CONTRIBUTOR | 40-44 | 44.00% | 8.80 |
| LEVEL 8 CONTRIBUTOR | 30-39 | 39.00% | 7.80 |
| NON-COMPLIANT | 0-29 | 29.00% | 0.00 |
| NO VERIFICATION CERTIFICATE SUBMITTED | | X | 0.00 |

COMPANY INFORMATION:

| | |
|---|---|
| TOTAL NUMBER OF EMPLOYEES | 0 |
| TOTAL NUMBER OF BLACK EMPLOYEES | 0 |
| TOTAL NUMBER OF BLACK APPOINTMENTS TO THE BOARD | 0 |
| TOTAL NUMBER OF BLACK APPOINTMENTS IN MANAGEMENT | 0 |
| TOTAL NUMBER OF BLACK PROFESSIONAL/SKILLED EMPLOYEES | 0 |
| % BLACK EQUITY OWNERSHIP | % |

BEE DIVISION:

COMMENTS:

NAME:

SIGNATURE:

DATE:

5 EQUITY EQUIVALENCE PROGRAMME FOR MULTINATIONALS

The Codes of Good Practice requires that all entities operating in the South African economy make a contribution towards the objectives of BBBEE. It is acknowledged, however, that there may be multinationals that have global practices preventing them from complying with the ownership element of BBBEE through the traditional sale of shares to black South Africans. In this instance, and provided that it can be proven that such entities do not enter into any ownership partnership arrangements in other countries globally, the Codes of Good Practice have made provision for the recognition of contributions in lieu of such sale of equity. Such contributions are referred to as Equity Equivalent Contributions.

Such Equity Equivalent Contributions towards the ownership element of the BBBEE made by Multinationals will be measurable against **25%** of the value of their operations in South Africa.

5.1 RECOGNITION OF EQUITY EQUIVALENCE PROGRAMMES

Any contributions towards the ownership element of BBBEE made by multinational businesses or South African multinationals are measurable against the value of their operation in the Republic of South Africa.

Examples of equity equivalence programmes:

5.1.1 Enterprise creation

If the equity equivalent contribution of a multinational involves the creation of a new enterprise:

5.1.1.1 The new enterprise must qualify as a Value-Adding Enterprise;

5.1.1.2 The creation of the new enterprise must comply with the requirements for a Qualifying Transaction as defined in statement 102 (recognition of the sale of the assets);

5.1.1.3 the creation of the new enterprise cannot contribute to the multinational's score under enterprise development; and

5.1.1.4 the equity equivalent contribution must involve the provision of interest free loans, No-Gain Grants of Human Capital Investments to the new enterprise equivalent in value to 50% of the new enterprise's operational costs for the first 3 years following its establishment.

5.1.2 Investment in social advancement

An equity equivalent contribution of a multinational that involves enhanced Socio-Economic Development:

5.1.2.1 must comply fully with the Socio-Economic Development; and

5.1.2.2 cannot form part of the multinational's score under Socio-Economic Development.

This formula is for determining the Ownership Score under an Equity Equivalence Programme.:

$$A = \frac{B}{C} \times 20$$

Where

A is ownership points of the multinational in an year arising from its equity equivalent contribution

B is the value of contributions made

C is the financial value of the target of 4% of total revenue from its South African operations annually over the period of continued measurement

This formula is for determining the Ownership Score under an Equity Equivalence Programme using either of the targets (25% of the value of the South African operations of the Multinational, determined using a standard valuation method or 4% of total revenue from its South African operations annually) where the contribution is made on an annual basis towards a ten- year target:

$$A = \frac{B}{C} \div \left(\frac{1}{25\% \times D} \right) \times 20$$

Where

A is ownership points of the multinational in any year arising from its equity equivalent contribution

B is the value of total contribution made prior to the date of measurement

C is the financial value of the target (25% of the value of the South African operations of the Multinational, determined using a standard valuation method) or the ten-year value of contributions to be made over the life of this statement

D is the time-based graduation factor: 1st year (10%) – 9th and 10th (100%)

ANNEXURE 1 (continued)

6 Based on the overall performance of a Measured Entity using the Generic Scorecard, it receives one of the following B-BBEE Status:

| B-BBEE Status | Qualification | BEE recognition level |
|---------------------------|--|------------------------------|
| Level One Contributor | ≥100 points on the Generic Scorecard | 135% |
| Level Two Contributor | ≥85 but <100 points of the Generic Scorecard | 125% |
| Level Three Contributor | ≥75 but <85 on the Generic Scorecard | 110% |
| Level Four Contributor | ≥65 but <75 on the Generic Scorecard | 100% |
| Level Five Contributor | ≥55 but <65 on the Generic Scorecard | 80% |
| Level Six Contributor | ≥45 but <55 on the Generic Scorecard | 60% |
| Level Seven Contributor | ≥40 but <45 on the Generic Scorecard | 50% |
| Level Eight Contributor | ≥30 but <40 on the Generic Scorecard | 10% |
| Non-Complaint Contributor | <30 on the Generic Scorecard | 0% |

ANNEXURE 2**BEE SHAREHOLDING CLAUSES****2.1 BEE Shareholding (*applicable where the duration of the order exceeds six months*)**

It is a requirement of Armscor that a contractor must have Black Equity Ownership of at least 25% or alternatively enter into a Joint Venture with another party which will effect Black Equity Ownership in the order of at least 25%.

This order is placed subject to the contractor submitting an acceptable BEE transformation plan within 60 (sixty) days from the date of placement of the order. Failure to submit the BEE transformation plan, Armscor reserves the right to cancel the order and award it to another supplier.

This plan must be approved by Armscor and implemented by the contractor within the agreed period as indicated in the BEE transformation plan.

In the event that the contractor does not submit the plan within 60 (sixty) days from placement of the order and implement such a plan within the agreed period as stated in the BEE transformation plan, Armscor may withhold as liquidated and pre-estimated damages at least 10% of the value of the order until the BEE transformation plan is submitted and implemented.

In the event that the contractor does not submit and implement the said implementation plan within the agreed period as provided in the plan and or within 90 (ninety) days after the final delivery date as contemplated in paragraph 25 of A-STD-0020, the contractor shall forfeit the retention held by Armscor as liquidated and pre-estimated damages.

OR

2.2 BEE Shareholding (*applicable where the duration of the order is less than six months*)

It is a requirement of Armscor that a contractor must have Black Equity Ownership of at least 25% or alternatively enter into a Joint Venture with another party which will effect Black Equity Ownership in the order of at least 25%.

This order is placed subject to the contractor submitting an acceptable BEE transformation plan within 30 (thirty) days from the date of placement of the order. This plan must be approved by Armscor.

In the event that the contractor does not submit the plan within 30 (thirty) days from placement of the order, Armscor may withhold as liquidated and pre-estimated damages at least 10% of the value of the order until the BEE transformation plan is submitted.

2.3 BEE Shareholding (*applicable where the duration of the order is less than 30 days*)

It is a requirement of Armscor that a contractor must have Black Equity Ownership of at least 25% or alternatively enter into a Joint Venture with another party which will effect Black Equity Ownership in the order of at least 25%.

This order is placed subject to the contractor submitting an acceptable BEE transformation plan within 30 (thirty) days from the date of placement of the order. This plan must be approved by Armscor.

In the event that the contractor does not submit the plan within 30 (thirty) days from placement of the order, Armscor may withhold as liquidated and pre-estimated damages at least 10% of the value of the order until the BEE transformation plan is submitted.

In the event that the contractor does not submit the said implementation plan within the period stated above and or within 90 (ninety) days after the final delivery date as contemplated in paragraph 25 of A-STD-0020, the contractor shall forfeit the retention held by Armscor as liquidated and pre-estimated damages.

2.4 BEE Shareholding (*Applicable when a contractor already submitted a plan with a previous order which has been approved*)

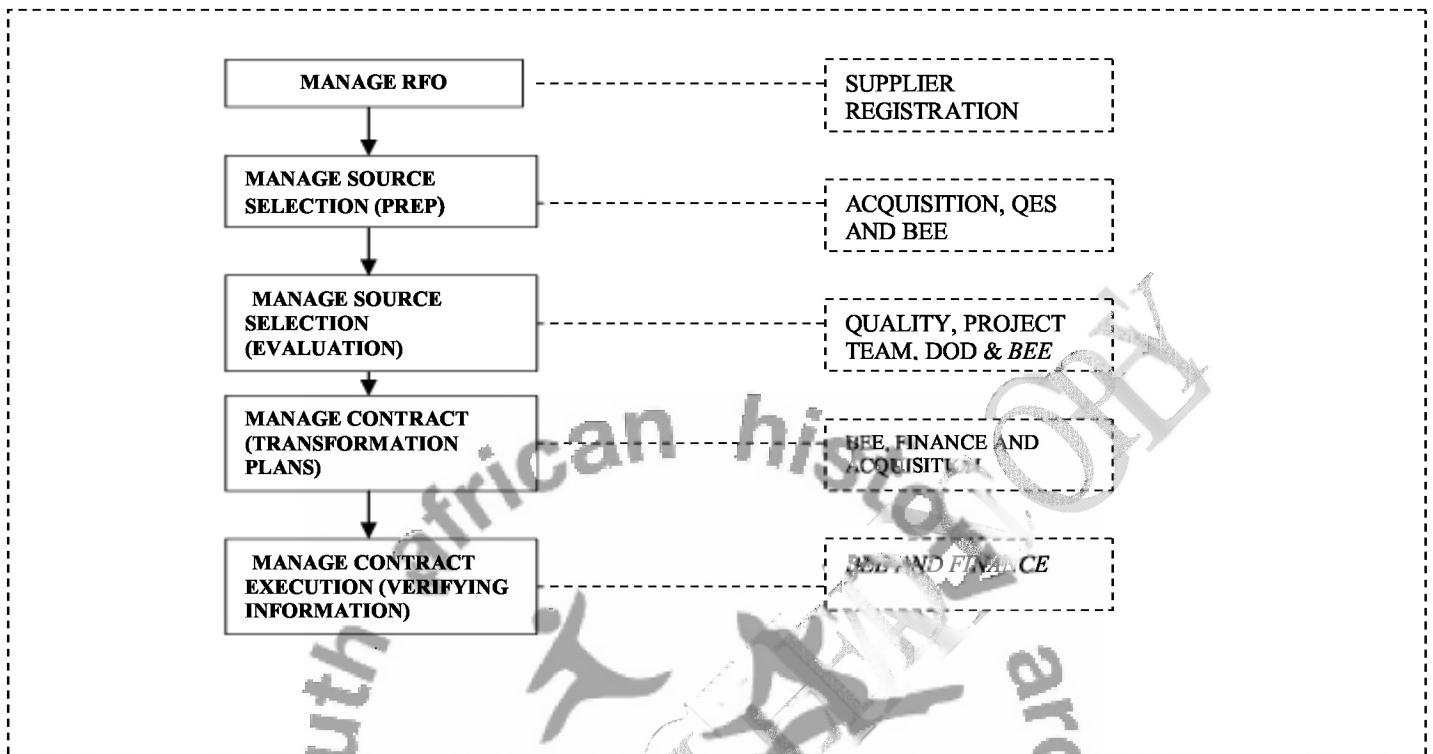
The BEE Transformation Plan already approved by Armscor must be implemented by the contractor within the agreed period as indicated in the BEE transformation plan.

In the event that the contractor does not implement such a plan within the agreed period as stated in the BEE transformation plan, Armscor may withhold as liquidated and pre-estimated damages at least 10% of the value of the order until the BEE transformation plan is submitted and implemented. Armscor shall deduct 10% per invoice submitted by the supplier.

In the event that the contractor does not implement the said implementation plan within the agreed period as provided in the plan and or within 90 (ninety) days after the final delivery date as contemplated in paragraph 25 of A-STD-0020, the contractor shall forfeit the retention held by Armscor as liquidated and pre-estimated damages

ARMSCOR'S BEE WORKFLOW

ANNEXURE 3



ANNEXURE 4**PENALTY SCHEDULE**

| Contract Value | 1 ST Non Compliance | 2 nd Non Compliance | 3 RD Non Compliance | 4 th Non Compliance |
|--------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Min R100k to R Max | 10% | 15% | 20% | 25% |

